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C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 000541

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SUBJECT: LATEST EFFORTS AT RECONCILIATION

Classified By: Anne W. Patterson, for reasons 1.4 (b) and (d)

11. (C) Summary and Comment. Pakistani media is reporting late March 13 that Chief of Army Staff (COAS) General Kayani met today with President Zardari and PM Gilani, and that Zardari had invited Shahbaz Sharif to a late night meeting to discuss reconciliation. When Ambassador sees PM Gilani tonight, we will confirm; Ambassador will see Kayani tomorrow. Pakistan Muslim League (PML) leader Chaudhry Shujaat Hussain proposed to Ambassador the idea of a unity government in Punjab composed of the PML, the Pakistan People's Party (PPP) and the Pakistan Muslim League-Nawaz (PML-N), with the PML holding the post of Chief Minister. Zardari told UK Foreign Secretary Miliband March 12 that the current situation "was the last thing he needed;" he was ready to make the first move in the form of requesting an appeal of the Sharifs' disqualification. UK High Commissioner Brinkley met March 12 with Kayani, who he described as worried the Army would have to step in to restore law and order in Punjab. Kayani said he had met with Zardari and Gilani "to offer advice, not coercion," and he warmly endorsed the UK attempt at mediation. Brinkley will see Zardari on March 14.

12. (C) It does appear that international and local pressure on Zardari is building, and he may now be ready to take the first step; it will be equally important that Nawaz respond positively--if he senses the lawyers' march may fizzle, he will be more willing to deal. Seeseptel for an update on today's demonstrations, which remained peaceful despite continued arrests/detentions. End Summary.

Punjab Unity Government?

13. (C) Ambassador and Polcouns met March 13 with Pakistan Muslim League (PML) leaders Chaudhry Shujaat Hussain and Pervaiz Elahi. Shujaat confirmed that the Pakistan People's Party (PPP) had backed off a proposed deal in which Shujaat would be elected Senate leader in exchange for PML's participation with the PPP in a coalition government in Punjab. Still on the table was a PPP offer to give the PML the slot of Chief Minister of Punjab if they joined in a coalition. Shujaat was particularly displeased at the way the PPP had dealt with negotiations--the Prime Minister did not call to inform him the deal was off until it was public knowledge. This further reduced the PML's trust in Zardari, so Shujaat was very suspicious that the PPP would live up to its commitments on the latest offer. Any coalition with the PPP, he worried, would not be stable. Shujaat was seriously considering just staying neutral to let the PPP and the Pakistan Muslim League-Nawaz (PML-N) sort out their

differences.

¶4. (C) Shujaat did offer an intriguing solution to end governor's rule in Punjab. He floated the idea of a unity government in Punjab composed of the PPP, PML, and PML-N; as the deciding vote, the PML-N would receive the post of Chief Minister. PML still wants a guarantor, or two, and suggested that both the U.S. and Chief of Army Staff (COAS) General Kayani act as guarantors for this deal. In Shujaat's view, this unity arrangement would be much more stable than either a PPP/PML-N or PML/PML-N coalition.

¶5. (C) Finance Advisor Shaukat Tarin told Ambassador separately on March 13 that Zardari was "overreaching" and had backed the Sharif brothers into a corner. Tarin said he had told Zardari that he could not stabilize the economy in the middle of a political crisis. Obviously frustrated, Tarin said that Zardari simply "does not listen" and believes the President is being badly advised. When asked if Gilani could play a helpful role, Tarin responded that the Prime Minister had lost the trust of the President - before he was on Zardari's side and now he is seen as being neutral.

UK Mediation Efforts

¶6. (C) The UK Embassy briefed post on Foreign Secretary Miliband's call to Zardari on March 12. Miliband warned Zardari that the situation was becoming dangerous, and it was more important than ever to find a way towards political reconciliation with the Sharifs. Zardari said the current situation was "the last thing he needed" and indicated he was

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willing to make the first move in the form of filing an appeal of the Sharifs disqualification. Miliband is calling Nawaz on March 13.

¶7. (C) UK High Commissioner Brinkley met yesterday with Chief of Army Staff Kayani and Awami National Party leader Asfundyar Wali Khan; he is scheduled to see Zardari the morning of March 14. Brinkley described Kayani as worried about the political situation and concerned the Army might be called in to restore order in Lahore. Kayani said the decision to impose governor's rule in Punjab was "a bad decision," welcomed UK mediation efforts, and endorsed Brinkley's idea of using the Charter of Democracy as a possible solution to the judiciary issue. Kayani said he had met with Zardari and PM Gilani to offer "advice, not coercion." Kayani had instructed his spokesman not to comment on misleading media speculation about the Army's role in the crisis.

¶8. (C) Comment: Ambassador will see PM Gilani tonight and Kayani again tomorrow. We hope to confirm if PPP and PML-N have the outlines of a deal. Certainly, Zardari is feeling international and local (internal PPP especially) pressure to find a way out of the situation he provoked. As for Nawaz, it appears so far that the government is shutting down lawyers' efforts to mass on Islamabad so he, too, may be ready for reconciliation. In all likelihood, a last-minute deal will not stop the march, so the possibility of violence still exists.

PATTERSON